

Department of Legislative Audit
Update to the Government Operations and Audit Committee on the Status of the Mid
Central Educational Cooperative Special Review and Fiscal Year 2015 Single Audit
April 25, 2017

Information on the Process and Actions Taken

1. In planning for the State of South Dakota Single Audit for Fiscal Year (FY) 2014, the Department of Legislative Audit (DLA) determined the GEAR UP grant to be high risk through DLA's risk assessment process. In addition to this high risk assessment, an individual came to DLA with concerns about the GEAR UP grant. For these reasons the GEAR UP grant was selected to be audited for FY2014 and DLA had written audit findings regarding the GEAR UP grant.
2. The FY2014 audit findings were reviewed at the August 25th, 2015 meeting of the Government Operations and Audit Committee (GOAC) and GOAC heard testimony from the South Dakota Department of Education (SDDOE) and the Director of the Mid Central Educational Cooperative (MCEC) regarding the findings.
3. Because of the FY2014 audit findings, the GEAR UP grant was required to be audited again for FY2015, at the State level. DLA was completing its work on the FY2015 GEAR UP grant at the SDDOE when the fire occurred at the Westerhuis property.
4. The Attorney General's Division of Criminal Investigation became involved as a result of the fire. The Attorney General subpoenaed DLA's working papers regarding the FY2014 and FY2015 audits of the GEAR UP program. In addition, First Circuit Court Judge Bruce Anderson granted a motion allowing DLA access to the Attorney General's investigative files for the purpose of DLA's audit of the GEAR UP grant. DLA has cooperated with the Attorney General in his investigation.
5. DLA's progress with FY2015 State level audit findings for the GEAR UP grant was discussed with the GOAC at its October 30th, 2015 meeting. At this meeting, the Auditor General informed the GOAC that because of the State level GEAR UP findings, the fire at the Westerhuis property and the fact that a second individual had contacted DLA with concerns about the GEAR UP grant, DLA would be conducting a special review to follow GEAR UP funds to MCEC and its related party organizations. SDCL 4-11-4 and 4-11-2.1 provide the Auditor General authority to audit the books and records of local governments and nonprofits receiving state or local government funding if the Auditor General finds that special reasons exist.
6. DLA began conducting work on its special review of MCEC and its related party organizations in February 2016. While conducting this work, MCEC also engaged DLA to perform the Single Audit for MCEC for its fiscal year ended June 30, 2015. The field work for this second engagement began in the late summer of 2016. Because of the overlapping nature of certain aspects of both engagements, the Auditor General decided to wait until both engagements were completed before releasing either of the reports. Both of these engagements involve other grants and programs administered by MCEC in addition to the GEAR UP program.

7. The FY2015 Single Audit report for the State of South Dakota which contained the FY2015 findings related to the GEAR UP grant was issued on March 21st, 2016.
8. At the May 17th, 2016 GOAC meeting, the FY2015 State level findings related to the GEAR UP program were reviewed by the GOAC as part of its review of the FY2015 Single Audit for the State of South Dakota.
9. DLA completed the field work for both engagements and delivered drafts of both reports to MCEC on February 22nd, 2017 and discussed them with representatives of MCEC on March 20th, 2017 for the purpose of determining whether there were any misstatements or inaccuracies in the reports and to allow MCEC to develop responses to the reports.
10. The March 20th, 2017 meeting with MCEC resulted in DLA conducting additional information gathering related to matters in the two reports. DLA has completed the additional information, revised the draft reports and delivered the final draft reports to MCEC on April 20th, 2017. We have given MCEC until May 19th to provide us with management representations and responses to the reports if they choose to respond and then DLA will release the reports.
11. The reporting process has taken longer than GOAC, MCEC or the Auditor General would have liked, but it has been a difficult process given the nature of records, the fact that key personnel are no longer available and the nature of the parties and legal actions involved.
12. DLA's reports address financial accounting and reporting and compliance with State and federal laws and regulations related to the administration of State, federal and local funds. The Attorney General's investigation addressed violations of criminal statutes. DLA's work does not address the performance or the effectiveness of any of the grants and programs that were audited.
13. It is important to note that the GEAR UP program is no longer administered by MCEC. Also, MCEC is ceasing its operations at the end of FY2017.
14. Total federal drawdowns by the State of South Dakota for the GEAR UP program for the period April 2006 through September 2015 were \$17,909,323.09. Payments by the State to MCEC for the GEAR UP program for the period April 2012 through September 2015 were \$10,660,663.33.